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Talking Points

The New Argentine Debt Crisis

Beginning around mid-September, the Argentine debt problem is likely repeatedly to make front-page news. The following events will occur in quick succession:

- o On 13-14 September, the so-called Cartagena Group of Latin American debtors will have its second meeting, at which the Argentine debt problem will be prominent, and the Group will be trying to agree on some pressure tactics to use at the bank-Fund meeting.
- o On 15 September, Argentina is scheduled to repay, but almost certainly will not, an emergency loan of \$750 million.
- o On 24-27 September, the annual joint meeting of the World Bank and the IMF will take place; the Argentine issue will be raised in the corridors, although not as part of the official agenda.
- o On 24 September, President Alfonsin will address the U.N.
- o On 30 September, Argentina will be at least \$900 million in arrears in its interest payments; this will force those US banks which have not already done so to put Argentine loans on a non-accrual basis.
- o In late October, the US regulatory agencies will meet to consider further classification of Argentine loans, including whether to classify them "value impaired," which would virtually preclude any further bank credits to Argentina.

The chances are that Argentina will not obtain any concessions from the banks or the creditor governments until it has an agreement with the IMF on a Letter of Intent. Despite occasional optimistic Argentine statements, there appears to have been little progress toward such an agreement. There is obviously a risk of a serious confrontation between Argentina and its creditors by the end of September.

Nevertheless, there is cause for some optimism. Recent press articles suggest that inflation, which has recently been accelerating to an annual rate of over 1,000 percent, is being viewed by the Argentines as the critical problem. The Argentine government may soon have to deal with this problem, which would then make it much easier to come to terms with the IMF.

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- o Labor apparently is coming to realize that promises to raise real wages do not mean much when inflation is out of control.
- o Consumers spend more and more time shopping, inventories are disappearing, and production probably is being disrupted.

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- o The government has announced elements of a program to gradually reduce inflation, but this is unlikely to work because events are so far out of control.
- o More drastic measures almost certainly will be necessary before the Argentine economy can resume economic growth.
- o Alfonsin could come to the conclusion that the population is ready to accept, and perhaps even welcome, a strong stabilization program designed to break inflation that would cause everyone some temporary pain, but could be presented as an essential prerequisite for a resumption of economic growth. However, there is as yet no sign that he intends to do this.

If there is no IMF agreement by late September, Treasury is proposing to put pressure on Argentina by working both with other creditor countries and with the better behaved debtors, like Mexico and Brazil. We believe that pressure would be counterproductive and that, for the reasons just mentioned, the Argentines may make the right moves for their own internal reasons.

- o External pressure would make it politically impossible for the Argentine government to come to terms with the IMF.
- o Moreover, until Argentina decides how it wants to deal with inflation, any IMF agreement would be meaningless.
- o The best thing for the US and the IMF to do is to stay out of the way until the Argentines have sorted out their own problems.

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SOVIET SUCCESSION STRUGGLE

The political struggle to succeed Konstantin U. Chernenko as the CPSU General Secretary has visibly intensified in recent weeks.

Chernenko's prolonged absence from public view, punctuated by a contrived and not very reassuring reappearance on Soviet television, has been marked by voluminous gossip about his physical and political decline, much of it emanating from Soviet security organs. Visible but not very effective efforts have been made to assert his continued authority in the Soviet public eye.

Clear preference in public protocol and widespread rumors have indicated a concerted effort to establish Gorbachev as the frontrunner to succeed. It is not likely, however, that Gorbachev or any other candidate has assured control over the timing and outcome of a succession scenario.

Nevertheless [] a plan to replace Chernenko for "health reasons" in the near future is under consideration in the Soviet leadership.

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The removal of Ogarkov as Chief of the General Staff adds a new twist to the succession maneuvering. It highlights the potential role of the military (and possibly the KGB) in Soviet politics, and also the determination of Soviet party leaders to prevent that role from asserting itself.

Ogarkov was almost certainly not removed as a result of a more or less normal policy dispute, e.g., over budgets.

[] suggests he was scapegoated over Afghanistan problems, it seems more likely that lower level officers would have fallen victim if that were the main concern.

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Ustinov has been a strong supporter of Ogarkov up till now; but it is hard to imagine his removal without Ustinov's blessing. There is no evidence that Ustinov is in trouble.

It is possible that Ogarkov fell victim to a combination of factors both personal -- his strong professional image and ambition, which may have been threatening to political leaders -- and institutional -- **more widespread resentment in the Soviet military leadership at large about the internal state of the USSR and the inability of an aging, divided party leadership to improve it.**

It is highly likely that professional Soviet military leaders are distressed about long-term economic trends in the USSR and other internal problems because of their future impact on Soviet military strength; some reporting conveys this distress.

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The political controls and propaganda aimed at keeping the Soviet military out of Soviet politics also habituate Soviet military leaders to worry about the "fate of the nation". Some emigres with previous contacts in the Soviet armed forces believe they harbor a body of nationalist sentiment alienated from the party leadership.

The failure of the Soviets' campaign in Afghanistan to progress has occasioned pessimism, complaints, and intramural backbiting in the Soviet military which could become focused on the political leadership.

The Soviet military -- whose national visibility is not matched by real political clout in the Politburo -- may resent and fear the political role of the KGB, which exercises irritating controls within the military and an unusual degree of influence over top-level political developments (having played a key role in Andropov's rise to power).

If Soviet political leaders have sensed this kind of sentiment in the Soviet military, they may have moved against Ogarkov, despite their own competing interests, to "nip in the bud" any military intervention through an exemplary action.

If this diagnosis is correct, however, it would suggest that the potential for some kind of military intervention in Soviet leadership politics has not been conclusively removed. The attitudes that could inspire it are likely to persist.

Even if Chernenko leaves the political scene soon, no aspirant for his job is presently a shoe-in, and whoever gets it will need months, if not years, to consolidate power. Thus the outlook favors protracted struggle within the Soviet leadership before there is reestablished the kind of balance between strong personal leadership and collective consensus on which rule of the party and the country depend.

The implications of this situation for Soviet foreign policy behavior are necessarily uncertain. However, while Chernenko is around and contenders are still struggling to succeed, the odds favor policy continuity, risk avoidance, and difficulty in reaching new decisions. Once one figure has succeeded to the General Secretaryship and is trying to consolidate his power, the odds favoring policy initiatives, possibly risky ones, go up.

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Talking PointsTopic: The Islamic Bomb: Chemical Rather than Nuclear?

- Iraq employed riot control agents against Iranian forces in July 1982 and began using mustard agent in August 1983. [] March 1984, Iraqi aircraft dropped bombs containing nerve agent on Iranian troops. This was the first overt use by any country of nerve gas in a combat situation. [] 25X1
- Iraq has over the last several years developed a substantial domestic CW production capability. CIA presently estimates that Iraq is capable of producing at least two tons per day of mustard agent and two tons per day of nerve agent. The Iraqi stockpile was recently estimated to amount to 165 agent tons of mustard and 55 agent tons of nerve. [] 25X1
- This brings to 16 the total number of countries having an offensive chemical warfare capability. In addition to the growth in number over the last 20 years, there also has been a dramatic shift in nations possessing offensive CW capability from the industrialized to the developing nations, primarily in the Middle East and East Asia. [] 25X1
- This proliferation, coupled with apparent international tolerance for CW weapons use in local conflicts, increases the probability that chemical weapons will be used more frequently in the future and complicates the ability of the US to conclude an effective chemical weapons treaty. In addition, it increases the likelihood of terrorist acquisition and use. [] 25X1
- The Iraqi capability, in particular, raises significant regional questions. What will Iraq do with its stockpile and production capabilities after the war with Iran has subsided? Will Iraq sell agent to friendly neighbors? Will it conduct research on more sophisticated agents or delivery systems? One can even speculate that Iraq perceives its domestic production capability as the cornerstone of an Islamic deterrent to the Israeli threat in the absence of having been able to develop a nuclear weapons capability. [] 25X1
- Baghdad has not lost its interest in nuclear research, notwithstanding Israeli destruction of the Osirak reactor three years ago and Iraqi preoccupation with the war against Iran; but it is not likely to acquire sufficient fuel cycle capability to constitute a serious nuclear proliferation threat during this decade. [] 25X1
- CIA (OSWR) has two papers on the CW topic in progress: one on CW proliferation worldwide and the other exploring some implications of the scope and sophistication of the Iraqi production capability. In addition, we have on the NIC Production Plan a Special Estimate on the Iraqi Chemical Warfare Program and CW Proliferation, which will take advantage of the OSWR papers and review these topics in detail. The SNIE is projected for NFIR review in January 1985.

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Soviet Responses to the US Strategic Defense Initiative

The US Strategic Defense Initiative (SDI) announcement in March 1983 caught the Soviets by surprise both in its focus on strategic defense R&D in the US, by the heavy commitment called for by the program, and perhaps most importantly, by the long-term implications if the US adopts a strategic policy embracing strategic defense--an area in which the Soviets have enjoyed a near-monopoly. The uncertainties of the nature and extent of possible changes in US strategy and force posture compound the complexities facing Soviet decisionmakers as they begin consideration of the Twelfth Five-Year Plan (1986-90). Their inclination must naturally be to build their forces for the 1990s as previously planned, yet they must hedge against SDI. The planning problem for them is how to translate this into specific decisions, while avoiding zigs and zags in their programs. While we cannot predict what specific course the Soviets will follow over the next 20-30 years in attempting to counter SDI and develop comparable systems, we can identify potential actions and assess early signs of these. [REDACTED]

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We have recently received the first indications that the Soviets have reallocated funds and redirected technology research efforts to counter the US SDI and further develop their own such defensive systems. [REDACTED]

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[REDACTED] as a result of the US SDI, the Soviet Union reorganized science and technology funding for their own "space defense" and that Soviet institutes were asked to identify potential Soviet countermeasures to a US system. Priority Soviet efforts reportedly include the completion of a "huge" ground-based laser to be ready in three years. [REDACTED] plans are underway to match the "US militarization of space." The Soviet manned space station effort will be redoubled. Although we cannot confirm [REDACTED] the reported Soviet actions seem to have been chosen for their plausibility. We believe Soviet R&D provides a solid basis for developing both potential countermeasures and advanced defensive systems. [REDACTED]

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It is not surprising that the Soviets are taking steps to refocus technical efforts to begin to counter SDI, if it were to be developed and deployed. It is surprising, however, that they provided such explicit information on what they are doing. This information was probably provided deliberately as part of the overall Soviet propaganda campaign against SDI. The Soviets clearly wish to convey serious intent to match any new US military capabilities in space, and to imply that the US will not gain any net advantage from its efforts. [REDACTED]

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--One aspect of this campaign [REDACTED] is aimed at undercutting the US SDI programs by claiming that it is technically unachievable. [REDACTED]

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--A second part, [REDACTED] claims that the Soviets are prepared to match our moves in SDI and are developing countermeasures that will make it fail.

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--A third part is to claim that the US is upsetting the strategic balance and planning for a nuclear war-winning capability, and to threaten a Soviet response, including some day shooting down SDI space platforms. [REDACTED]

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The reference to a ground-based laser to be ready in three years--presumably for testing--is plausible. Two such facilities have been under development at Saryshagan since the early 1970s. They probably have ASAT capabilities and one is likely to be used during the 1980s for testing of lasers for ballistic missile defense. [REDACTED]

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